

INCREASES IN OPERATING COSTS FOR BERKELEY RENTAL PROPERTIES

Kenneth Baar

August 6, 1984

Kenneth Baar

August 6, 1984

This report was prepared for the Berkeley Rent
Stabilization Board for the purpose of providing technical
assistance in establishing 1985 general adjustment regulations.


TABLE OF CONTENTS

| | |
|---|----|
| I. Introduction | 1 |
| II. Methodology | 3 |
| III. Prior Operating Cost Studies and General Adjustments..... | 5 |
| IV. Operating Cost Increases July 1, 1983 - July 1, 1984..... | 6 |
| V. Overall Rent Increases Required to Cover Operating Cost Increases | 18 |

Appendices

- A. P.G. & E. letter explaining 1984 changes in baseline allowance
- B. Bureau of Labor Statistics, July 24, 1984 report on CPI

The author gratefully acknowledges the assistance of Miguel Iglesias and Jay Kelekian in gathering data for this report.



Digitized by the Internet Archive
in 2024 with funding from
State of California and California State Library

<https://archive.org/details/C124879651>

I. INTRODUCTION

Each year under the Berkeley rent stabilization law, the Berkeley Rent Stabilization Board has the duty of determining what across-the-board increases or decreases (general adjustments) in rents shall be authorized.

The general adjustment section of the ordinance states:

Section 11. ANNUAL GENERAL ADJUSTMENT OF RENT CEILINGS.

a. Once each year, the Board shall consider setting and adjusting the rent ceiling for all rental units covered by this Ordinance in general and/or particular categories of rental units covered by this Ordinance deemed appropriate by the Board. The Board shall hold at least two public hearings prior to making any annual general adjustment of the rent ceilings. ...

b. In making annual general adjustments of the rent ceiling, the Board shall:

(1) Adjust the rent ceiling upward by granting those landlords who pay for utilities a utility adjustment for increases in the City of Berkeley for utilities.

(2) Adjust the rent ceiling upward by granting landlords a property tax, maintenance and operating expense increase adjustment (exclusive of utilities) for increases in the City of Berkeley for property taxes and maintenance and operating expenses.

(3) Adjust the rent ceiling downward by requiring landlords to decrease rents for any decreases in the City of Berkeley for property taxes.

(4) Adjust the rent ceiling downward by requiring landlords who pay for utilities to decrease rents for any decreases in the City of Berkeley for utilities.

In adjusting rents ceilings under this subsection, the Board shall adopt a formula or formulas of general application. This formula will be based upon a survey of the annual rent registration forms, surveys, information and testimonies presented at public hearings, and other available data indicating increases or decreases in the expenses relating to the rental housing market in the City of Berkeley set forth in this subsection. For maintenance and operating expense adjustments, the Board may also use survey data from surrounding communities where appropriate. The Board shall make no more than one annual adjustment of rent ceilings per rental units per year.

Adoption of a formula greater than forty-five percent (45%) of the increase in the Consumer Price Index for the twelve months ending the previous June 30 shall require the affirmative vote of six (6) Commissioners, other provisions notwithstanding. Adoption of such a formula shall be a specific and special exception to the requirement of only five (5) affirmative votes to make a decision. For the purposes of this subsection, the Consumer Price Index shall mean the Consumer Price Index for all urban consumers in San Francisco—Oakland, all items (1967 equals 100), as reported by the Bureau of Labor Statistics of the U.S. Department of Labor, as it pertains to the City of Berkeley.

In the period June 1983 - June 1984, the Consumer Price Index (CPI) referred to in general adjustment section increased by 5.2%.

The purpose of this report is to provide the rent board and the public with estimates of operating cost increases for Berkeley apartments and the amount of the rent increase required to cover each of these operating cost increases.

It is not the purpose of this report to determine what general adjustment would be "fair". Residents hold varying views about what factors should be considered in setting general adjustments and about whether rent increases should be more, less, or equal to the amount necessary to cover operating cost increases.

In order to place the Berkeley general adjustment process in perspective, it should be noted that most rent control laws do not give the board the power to determine general adjustments.

Under some laws general adjustments are a fixed percentage (e.g. 5% per year) regardless of actual changes in the expenses associated with operating apartments. The advantage of such an approach is its simplicity. The drawback of using a fixed percentage is that it might not bear any particular relationship to changes in apartment operating costs in a particular year.

Under other laws, the annual general adjustment is a fixed percentage of the percentage increase in the CPI (e.g. 60% of the increase in the CPI). The drawback of using the CPI as a measure of allowable rent increases is that the CPI represents a market basket of household goods (including such items as food, medical care and transportation), while apartment operating costs are limited to particular types of expenses. Therefore, the CPI may not be a good indicator of increases in apartment operating costs. Increases in the types of expenses associated with apartments have often been well above or below the inflation rate. For example, in California, property tax increases are limited to 2% per year, except when a property is sold. On the other hand, increases in utility costs (e.g. gas, electricity, water, garbage) have been far above the inflation rate in some years.

While most rent control laws fix the amount of the annual general adjustment, a significant portion of the laws delegate to a board, the authority to determine annual rent increases, based on an analysis of increases in apartment operating costs. This approach is authorized by the Massachusetts state rent control enabling act, New York rent control laws, and the Santa Monica law. Boards which operate under this type of law typically perform annual operating cost studies in order to estimate the rent increase required to cover apartment operating cost increases or decreases. In essence, these jurisdictions use a weighted price index for apartment expenses rather than the Consumer Price Index, in order to calculate general adjustments. (The concept of tying general adjustments to operating cost increases originated with World War II era rent controls.)

While the weighted operating cost approach to estimating increases in apartment operating expenses may be more precise than the CPI, it should be noted that usually the CPI still plays a major role in estimating apartment cost increases. Since actual changes in maintenance and management expenses are not known, rent boards typically use one of the consumer price indexes to estimate increases in these expenses, which constitute over half of operating expenses.

II. METHODOLOGY

a. Basic description

The use of an apartment operating cost index approach involves two basic steps.

1. The ratio of each type of operating cost to gross income is estimated.

2. Then, the ratio of each type of operating cost is multiplied by the percentage increase in that operating cost in order to determine the rent increase necessary to cover that operating cost increase.

For example, if it is estimated that refuse collection expenses are 30%, a rent increase of slightly less than 1% is needed in order to cover the resulting cost increase. In order to calculate the rent increase required to cover that operating expense increase the following calculation is made:

| | Ratio (Weight) | x | Pct. Increase | = | Rent Increase Required |
|-------|----------------|---|---------------|---|------------------------|
| Water | .03 | x | 30% | = | .90% |

In order to calculate the overall rent increase required to cover operating cost increases the rent increases required for all the types of operating expenses are added up. (See page 18 for the calculation for July 1, 1983- July 1, 1984 cost increases.)

b. Data Sources

The board does not have records of landlords operating expenses, except for buildings involved in individual adjustment petitions. Instead, the development of estimates of the ratios of different operating expenses to gross income and their rates of increase relies on public records, "surrogate" data sources, surveys, and some assumptions. For some types of expenses very precise estimates can be made, while for others the estimates are less precise.

Estimating operating expense ratios

Property taxes, refuse collection, license fees, special assessments, and sewer maintenance are public record. Therefore, it is possible to make very precise estimates of these cost ratios. The ratios of other expenses, including water and gas and electricity have been surveyed from a sample of properties in the course of prior general adjustment studies.

The September 1982 general adjustment study included substantial data collection in order to estimate the ratio of various operating expenses to income. A sample of several hundred properties was used in order to estimate property tax, refuse collection, and library tax expense

could be used to estimate water and sewer expense ratios. The September 1982 study also contains a detailed analysis of the methodologies, issues, and problems associated with creating a weighted cost index for residential rental units.

Maintenance and management constitute a major portion of operating expenses. However, since data on these expenses is not publicly available nor easily obtainable, data derived from other studies has been the principle source for estimating expense ratios for these items.

Management expense ratios have been assumed to be at standard levels for professionally managed apartments. For landlords who manage their own properties a management expense has been allowed based on the theory that the labor contributed by such owners is comparable to management company fees paid by landlords who do not manage their properties.

Estimates of maintenance expense ratios have been based on the substantially varying ratios indicated by real estate industry data, review of individual adjustment petitions, data supplied by one Berkeley management company, and an East Bay survey.

The bases for the operating expenses ratios used in this report are set forth in the September 1982 and summer 1983 operating cost studies.

Estimating increases in operating costs

Some types of operating cost increases can be precisely estimated. For example increases in property taxes, water and sewer rates are known and are beyond the control of landlords.

Other types of expenses are also governed by public rates, but may be partially in the control of landlords. For example, the city may raise refuse collection rates, but landlords may cut back on service levels. In instances where a city service is involved, bills for different years can be compared in order to determine average increases in expenditures.

Increases for other types of expenditures, including management and maintenance can only be estimated.

As one might imagine methodologies for calculating estimates of different types of cost increases are open to debate and positions about which methodology is most appropriate tend to accord with the particular result desired. For example, various consumer price indexes have been used in rent controlled jurisdictions in order to estimate increases in maintenance costs. Each of the various indexes have weaknesses and strengths. In some instances, in annual general adjustment debates in rent controlled jurisdictions, landlords have argued that the Consumer Price Index all items less shelter is superior to the all-items index, when it has increased faster than the all items index. Tenants have favored the use of the all-items less shelter index when it has increased at a slower rate than the all-items index.

c. The overall rent increase required to cover operating cost increases

In California, operating expenses equal about 40% of gross income on the average. The balance which is left over after operating expenses, known as "net operating income", typically constitutes 60% of gross income. "Net operating income" is the source of funds for debt service and cash flow from the property.

$$\text{Gross Income} - \text{Operating Expenses} = \text{Net Operating Income}$$

$$\text{Net Operating Income} - \text{Mortgage Payments} = \text{Net Income (Cash Flow)}$$

While net operating income ratios exhibit some degree of uniformity among properties, net income/gross income ratios vary enormously among properties according to the purchase date, the size of the downpayment, and the type of financing associated with the property.

Since operating costs equal only about 40% of gross income, on the average, the rent increase required to cover increases in operating costs typically will equal approximately 40% of the inflation rate. (Some rent control jurisdictions which use the weighted operating cost methodology also include a partial inflation adjustment for the net operating income portion of gross income, in calculating the permitted general adjustment.)

III. PRIOR OPERATING COST STUDIES AND GENERAL ADJUSTMENTS

As Board members are well aware, prior general adjustments have been the subject of controversy and debate. The table below sets forth the rent increases permitted since the adoption of Measure D in June 1980. Reports regarding operating cost increases for those years are enclosed in a separate packet.

Rent Board Annual General Adjustments 1981 - 1984

| <u>Year</u> | <u>General Adjustment</u> | <u>Operating Cost Analyses</u> |
|-------------|---|--|
| 1981 | 5% + (1.2% for LL pays for heat) | Rent board a.g.a committee |
| 1982 | 9% + (\$4-\$16 if LL pays heat & elec. depending on apt.size) | Lebowitz report (a.g.a. comm.) - C.A.L.P.I.R.G. report |
| 1983 | 4.75% + (0.25% if LL pays any gas or elec.) | Baar/Keating Report Staff Report |
| 1984 | 0% | Baar/Keating Report Brauer, Callejo, Gross, & Illgen analysis Gee, St. John analysis Board Resolution re: expenses |

IV. OPERATING COST INCREASES JULY 1, 1983 - JULY 1, 1984

In this section, operating cost increases which took effect from July 1, 1983 through July 1, 1984 are discussed. The discussion is divided into three sections. First, there is a discussion of a number of rate increases in public and city utility services and fees which became effective as of July 1, 1983. These increases were discussed in last year's general adjustment reports and hearings, but were not included in the final determination of the allowable annual general adjustment. Second, there is a discussion of other cost increases which occurred between July 1, 1984 and June 30, 1983. Third, there is a discussion of city rate increases effective July 1, 1984.

a. RATE INCREASES EFFECTIVE JULY 1, 1983

(i.)

Water

The ratio of water costs to gross income has been estimated to be 1.1% (.011). Effective July 1, 1983 water rates were increased by 20%.

Water Rates

| | Monthly meter charge | | | Water charges Per 100 cu. ft. | |
|-----------|----------------------|-----------|---------------|-------------------------------|---------------------|
| | <u>3/4"</u> | <u>1"</u> | <u>1 1/2"</u> | <u>First 500 ft.</u> | <u>Over 500 ft.</u> |
| June 1979 | 2.60 | 5.00 | 10.00 | .38 | .50 |
| July 1983 | 3.10 | 5.95 | 11.90 | .475 | .595 |

Meter charges and charges for water consumption in excess of 500 cu. ft. increased by 19%. The charge for the first 500 cu. ft. increased by 25%; however, only a fraction of all water consumption is at this level. Average water consumption is 478 cu. ft./apt. unit/month. (See Baar/Keating Sept. 1982 report, p.IV-9.) Therefore, in a four unit building approximately three-quarters of all consumption would be at the level for which rates increased by 19% and one-quarter would be at the rate which increased by 25%. On this basis, it is assumed that the overall rate of increase was 20%.

Rent Increase Required to Cover Increase in Water Rates

| Ratio of Water Cost to Gross Income | Rate of Increase | Pct. Rent Increase Required to Cover Cost Increase |
|-------------------------------------|------------------|--|
| .011 | 20% | .022 |

(ii.)

Sewer service

The sewer service charge (for the maintenance of the sewers) is a municipal charge. It is distinct from sewer treatment which is a charge of E.B.M.U.D. The ratio of service charges to gross income has been estimated to be 1.2% (.012).

As the table below indicates, sewer service charges for buildings with four units or less are per apartment unit, while charges for buildings with four units or more are based on water consumption.

SEWER SERVICE RATES

| | <u>4 units or less</u> | <u>5 or more units</u> |
|------------------------|------------------------|------------------------|
| July 1981 ^a | \$3.00/apt./mo. | \$0.45/100 cu.ft. |
| July 1983 ^b | \$3.89/apt./mo. | \$0.58/100 cu.ft. |

a. Ordinance No. 5373

b. Ordinance No. 5544

For both classes of buildings, rates increased by approximately 29%.

Rent Increase Required to Cover Increase in Sewer Service Rates

| Ratio | | Rate of Increase | | Pct. Rent Increase Required to Cover Cost Increase |
|-------|--|------------------|--|---|
|-------|--|------------------|--|---|

| | | | | |
|------|---|-----|---|-----|
| .012 | x | 29% | = | .35 |
|------|---|-----|---|-----|

(iii.)

City business license fee

The ratio of the city business license fee is fixed by ordinance at a specified percentage of gross income.

Effective, July 1, 1983, the business license fee for rental properties was increased from \$6.30/\$1,000 gross receipts (Ordinance No. 5055; 1978) to \$7.56/\$1,000 gross receipts (Ordinance No. 5552), an increase of 20%.

Rent Increase Required to Cover Increase in Business License Fee

| Ratio | | Rate of Increase | | Pct. Rent Increase Required to Cover Cost Increase |
|-------|---|------------------|---|---|
| .0063 | x | 20% | = | .13 |

(iv.)

Library Assessment

The ratio of the library assessment to gross income has been estimated to be .64% (.0064).

The library assessment for dwelling units was increased from \$0.02633/sq. ft. to \$0.02775/sq. ft., an increase of 5.4%.

Rent Increase Required to Cover Increase in Library Assessment

| Ratio | | Rate of Increase | | Pct. Rent Increase Required to Cover Cost Increase |
|-------|---|------------------|---|---|
| .0064 | x | 5.4% | = | .03 |

(v.)

Refuse Collection

Refuse collection rates are based on a schedule which takes a substantial number of factors into consideration including, but not limited to: the size of the trash cans or bins, the section of the city, location of cans or bins in relation to the street, number of additional cans at the location, collections per week. (See Resolution No. 50,788; July 1981 and Resolution No. 51,854; July 1983.)

The two principal changes in the rates were as follows:

1. Rates per cans and bins were increased by 11%.
2. The discount rate for cans in excess of one can was repealed. As a result the rates for additional cans increased by approximately 33%. The rate increases varied among refuse collection districts.

The repeal of the discount rate has greatly varying effects. If a rental property had only one trash can or trash bins, its rate increased 11%. If it had several trash cans, its overall rate increase approached 33%, depending on the number of cans it had.

Review of a sample of bills (in the fall of 1983) indicated that an average rate increase of 22% would be a reasonable estimate of the average rate of increase in refuse collection bills.

Rent Increase Required to Cover Increase in Refuse Collection Rates

| Ratio | | Rate of Increase | | Pct. Rent Increase Required to Cover Cost Increase |
|-------|---|------------------|---|---|
| .019 | x | 22% | = | .42 |

b. COST INCREASES JULY 1983 - JUNE 1984

(vi.)

Property taxes

The ratio of property taxes to gross income has been estimated to be 6.7% (.067).

Under Proposition 13, property tax increases are limited to 2%/year except upon sale of a property. In past years, for the purpose of calculating the annual general adjustments, it has been assumed that property taxes increase by this rate.

Rent Increase Required to Cover Increase in Property Taxes

| Ratio | | Rate of Increase | | Pct. Rent Increase Required to Cover Cost Increase |
|-------|---|------------------|---|---|
| .067 | x | 2% | = | .13 |

(vii.)

Insurance

The ratio of insurance costs to gross rental income has been estimated to be 3.5% (.035).

The primary determinant of increases in insurance costs is increases in replacement costs of buildings. According to the Marsh and Swift manual, a widely used source in the insurance industry, replacement costs for wood frame construction increased by 5.6% between April 1983 and April 1984. (The July to July report is still not available, it should be used when it is published). Large companies develop their own cost estimates. For the purposes of this report the Marshall and Swift calculation is used.

Rent Increase Required to Cover Increases in Insurance Costs

| Ratio | | Rate of Increase | | Pct. Rent Increase Required to Cover Cost Increase |
|-------|---|------------------|---|---|
| .035 | x | 5.6% | = | .20 |

(viii.)

Management

In calculating the 1983 general adjustment, the Board assumed that management costs increased by the amount of the prior general adjustment, based on the theory that management fees are usually fixed at a percentage of rental income (typically 6% in the real estate industry). In calculating the 1984 general adjustment, the Board concluded that there had been no increase in management costs due to the reduction in turnover of tenants. (See Board resolution)

It is recommended that if any assumptions are made about increases in management expenses in calculating this year's and future general adjustments, that a measure other than the prior year's general adjustment be used to calculate increases in management expenses. (For most units, management consists of owner labor rather than professional management.) Otherwise, circular results will follow: a low general adjustment will lead to a low allowance for increased management expenses in the following year and a high general adjustment will lead to a high allowance for increased management expenses in the following year. If estimates of increases in management costs are made on the basis of an index, then it is recommended that either the Employment Cost Index for civilian workers or the CPI-all items less shelter be used.

However, it is also recommended that the management cost ratio be maintained at 6%, an industry average, for the purposes of calculating annual general adjustments. (This is a diversion from the process by which other ratios are adjusted on annual basis in order to reflect the fact that operating cost ratios change when operating costs increase at a different rate than rents. See Baar/Keating 1983 report, pp.4-5 for discussion of these adjustments.)

Rent Increase Required to Cover Increases in Management Expenses

| Ratio | | Rate of Increase | | Pct. Rent Increase Required to Cover Cost Increase |
|-------|---|------------------|---|---|
| .06 | x | 4.4% | = | .26 |

(ix.)

Maintenance

Maintenance is the largest of the operating expenses. It is also been the center of dispute in past Board operating cost analyses. The Board does not have data on actual maintenance expenses, except in individual adjustment cases. In past years, the Board has usually relied on assumptions in estimating maintenance cost increases.

In the September 1982 Baar/Keating report, it was estimated that the ratio of maintenance expenses to gross income was .20 (20%), and it was assumed that maintenance expenses increased by the rate of increase in

the C.P.I.-all items (11.2%). However, the report's use of the 20% ratio and the 11.2% rate of increase were made subject to a caveat that both of these figures seemed high. Subsequently, the Board adopted a staff analysis which assumed that maintenance expenses increased by the C.P.I.-all items less shelter (8.5%). The argument for using the all-items less shelter index was that the all-items index was overly sensitive to changes in mortgage interest rates and house prices, which do not really influence maintenance costs.

In January 1983, the Bureau of Labor Statistics revised its methodology to reduce (but not eliminate) the weight of house purchase and new financing costs in its market basket of goods which is used to calculate the Consumer Price Index-all items.

In 1983 it was estimated that the maintenance expense to gross income ratio was .14 (14%). Rationale for adjusting the ratio are set out at length in last year's Baar/Keating report. The Baar/Keating 1983 report assumed that maintenance expenses increased by the rate of increase in the C.P.I.-all items less shelter (2.8%). If that assumption had been used, a 0.39% rent increase would have been required to cover increases in maintenance costs. However, at the end of its hearings, the Board concluded that maintenance costs had not increased.

If it is assumed that during the period July 1983 - June 1984 maintenance expenses increased by rate of increase of the C.P.I.-all items less shelter, 4.4%, then a 0.62% rent increase would be required to cover maintenance cost increases (.14 x 14% = 0.62%). Obviously, other conclusions and/or assumptions about the maintenance expense ratio or rates of increase in maintenance expenses would lead to other results.

Rent Increase Assumed as Necessary to Cover Maintenance Cost Increase

| Ratio | | Rate of Increase | | Pct. Rent Increase Required to Cover Cost Increase |
|-------|---|------------------|---|---|
| .14 | x | 4.4% | = | .62 |

(x.)

Gas

Estimation of changes in gas costs involves consideration of several factors. Rate changes may be effectuated through changes in rates per therm of consumption or through changes in base rate allowances. In order to estimate the impact of these types of changes, it is necessary to know what portion of consumption is at different rate levels.

hot water only -

Estimation of the rate of increase or decrease, in gas costs for landlords who pay for hot water heating is problematic. Changes in rates varied at different levels of consumption. However, the impact of these changes on landlords costs are not well known because average consumption levels for units where the landlord supplies gas only for hot water heating are not known and have not been surveyed by P.G. & E. (P. G. & E. rate analysts indicated that average monthly consumption for single family dwellings (for heat and hot water heating) in the Bay area is 58 therms/month.)

The rate for consumption at the baseline level increased by 4.5%. Also, the baseline allowance (15 therms) is one therm less than the former "lifeline" allowance (16 therms). At the tier II level, the gas rate decreased by 2.8%. Consumption which was formerly billed at a tier III rate is now billed at a tier II rate. As a result, the effective rate for what was formerly tier III consumption was reduced by 19.5%.

The following chart is designed to provide some guidance (or add to the confusion) regarding this complex set of rate changes.

Gas Rates - Hot Water Only

| | <u>June 1983</u> | <u>June 1984</u> |
|--------------|------------------|------------------|
| 1-15 therms | .44/therm | .46/therm |
| 16th therm | .44/therm | .70/therm |
| 17-32 therms | .72/therm | .70/therm |
| 33+ therms | .87/therm | .70/therm |

If it is assumed that average consumption is less than double the baseline allowance, the change in gas bills would be relatively small, a few percent. For example, for 30 therms consumption the total bill in June 1984 would have been \$17.40 compared with \$17.12 one year earlier, an increase of 1.6%. The bill for 15 therms consumption increased by 4.5%. The rent increase required to cover gas costs increases in these ranges is in the 0.1% or less range. (.023 ratio x 3% increase = .069%)

In the event of a substantial gas rate hike, it is recommended that either the Board undertake a survey of consumption levels or, if feasible, contract with P.G.& E. to perform a small survey of its bills.

Changes in gas rates for apartments where heat is supplied by the landlord were even more complex than the changes for hot water only. The base rate allowance was increased for the winter months, but decreased for the summer months.

The summer baseline allowance is now 27 therms, compared with the former lifeline allowance of 35 therms. The winter baseline allowance is 69 therms, compared with the former lifeline allowance of 55 therms.

However, it is not known what percentage of consumption is at levels which were transferred from lifeline to tier II rates or from Tier II rates to baseline rates. (In the course of last year's general adjustment study, a utility survey was mailed to 660 landlords. 151 completed and returned the questionnaire. However, only 11.9% paid for heat. And, some of those respondents did not provide gas expense information or the information could not be used in order to calculate an expense ratio because the building was partially owner occupied. As a result usable data on heat expense ratios was obtained for only 9 buildings.) A reasonable conclusion would be that there was no increase in gas costs for landlords who supply heating, since increase in the base rate allowance for the winter exceeds the decrease in the base rate allowance for the summer.

(xi.)

electricity

Rate increases for electricity have been more uniform than for gas. At the three levels of consumption (baseline, tier II, and excess) rate increases were between 7% and 7.8%. For the purposes of estimating the overall cost increase a 7.6% rate increase is used.

Summer consumption eligible for the lowest rate was reduced minimally, from 240 kwh to 220 kwh, while winter consumption eligible for the base rate was increased minimally from 240 kwh to 250 kwh. Consumption eligible for Tier II rates was decreased from 300 to 170 kwh in the winter and 300 to 150 kwh in the summer. However, this change should not have a significant effect in light of the fact average consumption seems to be well below the consumption within the new levels for the first two tiers of consumption. (See discussion below.)

Data on electric expenses for apartments has been very incomplete. Data obtained during the course of the 1982 Baar/Keating study indicated an average expense ratio of 3% for electricity for common areas only and 5.4% for electricity within apartments.

As in the case of gas consumption, information on average consumption for apartments is lacking. However, a Southern California Edison survey of 4,000 apartments on the westside of Los Angeles indicated average consumption of 273 kwh/month. Assuming that consumption levels are comparable in the Bay area, the 5.4% ratio seems reasonable. However, the 3% ratio for apartments where the landlord supplies electricity only for common areas seems high. In Santa Monica, where the rent board required landlord operating cost statements as a part of its first

registration, last year's operating cost study indicated the current ratio is under 2%. (The 1978 ratio was 1.1%, since then rates had increased by 100% while rents had increased 26%.) For the purposes of this analysis a 5.4% ratio is used for apartments where the landlord pays for electricity within the apartment and a 2% ratio is used for electricity for common areas only.

Rent Increase Required for Increases in Electricity Costs

| Ratio | Rate of Increase | Pct. Rent Increase Required to Cover Cost Increase |
|--------------------|------------------|--|
| common areas only. | | |
| .02 | x 7.6% | = .15% |
| all electricity | | |
| .054 | x 7.6% | = .41% |

c. OPERATING COST INCREASES EFFECTIVE JULY 1984

(xii.)

Sewer Service

For the purposes of calculating the impact of the July 1984 rate increase, the cost ratio is estimated to be 1.5% (.015). This ratio is 29% higher than the .012 ratio used in the calculation of the rent increase required to cover the prior sewer service rate increase due to the 29% rate increase involved therein.

Effective July 1984 (Ordinance No. 5606), sewer service charges were increased approximately 12%.

| | <u>4 units or less</u> | <u>5 or more units</u> |
|-----------|------------------------|------------------------|
| July 1983 | \$3.89/apt./mo. | \$0.58/100 cu.ft. |
| July 1984 | \$4.35/apt./mo. | \$0.65/100 cu.ft. |

Rent Increase Required to Cover Increase in Sewer Service Rates

| Ratio | | Rate of Increase | | Pct. Rent Increase Required to Cover Cost Increase |
|-------|---|------------------|---|---|
| .015 | x | 12% | = | .18 |

(xiii.)

City business license fee

The business license fee for rental properties was increased from \$7.56/\$1,000 of gross receipts (Ordinance No. 5552) to \$8.47/\$1,000 gross receipts (Ordinance No. 5605), an increase of 12%.

Rent Increase Required to Cover Increase in Business License Fee

| Ratio | | Rate of Increase | | Pct. Rent Increase Required to Cover Cost Increase |
|--------|---|------------------|---|---|
| .00756 | x | 12% | = | .008 |

(xiv.)

Library Assessment

The ratio of the library assessment to gross income has been estimated to be .67% (.0067).

The library assessment for dwelling units was increased from \$0.02775/sq. ft. to \$0.02928/sq.ft., an increase of 5.6%.

Rent Increase Required to Cover Increase in Library Assessment

| Ratio | | Rate of Increase | | Pct. Rent Increase Required to Cover Cost Increase |
|-------|---|------------------|---|---|
| .0067 | x | 5.5% | = | .037 |

IV. OVERALL RENT INCREASES REQUIRED TO COVER OPERATING COST INCREASES

| <u>Expense</u> | <u>Ratio</u> | | <u>Pct. Increase in Expense</u> | | <u>Pct. Rent Increase Required</u> |
|----------------|--------------|--|-------------------------------------|--|--|
|----------------|--------------|--|-------------------------------------|--|--|

July 1983 increases

| | | | | | |
|-------------------|-------|---|------|---|-----|
| Water | .011 | x | 20% | = | .22 |
| Sewer Service | .012 | x | 29% | = | .35 |
| Business License | .0063 | x | 20% | = | .12 |
| Library Assm't | .0064 | x | 5.4% | = | .03 |
| Refuse Collection | .019 | x | 22% | = | .42 |

Other Increases July 1983 - June 1984

| | | | | | |
|----------------|------|---|------|---|-----|
| Property Taxes | .067 | x | 2% | = | .13 |
| Insurance | .035 | x | 5.6% | = | .19 |
| Management | .06 | x | 4.4% | = | .26 |
| Maintenance | .14 | x | 4.4% | = | .62 |

Increases Effective July 1984

| | | | | | |
|--------------------|--------|---|------|---|-----|
| Sewer Service | .015 | x | 12% | = | .18 |
| Business License | .00756 | x | 12% | = | .01 |
| Library Assessment | .0067 | x | 5.5% | = | .04 |

Gas and Electricity

Gas

hot water only

change not significant

hot water & heat

Electricity

| | | | | | |
|-------------------|-----|---|------|---|-----|
| common areas only | .02 | x | 7.6% | = | .15 |
|-------------------|-----|---|------|---|-----|

| | | | | | |
|-----------------|------|---|------|---|-----|
| all electricity | .054 | x | 7.6% | = | .41 |
|-----------------|------|---|------|---|-----|

PACIFIC GAS AND ELECTRIC COMPANY

PG&E



77 BEALE STREET • SAN FRANCISCO, CALIFORNIA 94106 • (415) 781-4211 • TWX 910-372-6587

May 1984

Dear Customer:

Beginning May 16, 1984, our lifeline billing structure is being replaced with baseline. This new billing system is the result of the California Legislature passing the Sher Bill in 1982 to reduce the complexity of lifeline.

The baseline system retains the basic concept of lifeline in that it still allows residential customers to purchase minimum quantities of gas and electricity at the lowest available rate.

Baseline amounts result from averaging the use of all residential customers who live in a climate area like yours. Your lifeline allowances, by contrast, were based on the types of appliances in your home.

Electric water heating customers generally use more electricity and received a higher lifeline allowance than customers who did not heat water electrically. Under the new Baseline Law, the amount of electricity available at the lowest rate is based on the average use of all residential customers. Therefore, if you use an electric water heater, your baseline quantities may be lower than your lifeline allowances. This can result in bill increases for some customers.

Customers who require gas or electric heat during summer months may also see higher bills under baseline. For example, the gas baseline allowance for summer heating will be reduced by 23 therms for coastal area customers. However, the impact on your bill will depend on how much you use.

PGandE will not collect more money because of baseline--increases in some customers' bills will be balanced by decreases in others.

If you have questions about baseline, please call your local customer services office. They can also discuss PGandE's programs to help you control your energy bills.

Pacific Gas and Electric Company

News

U.S. Department of Labor
Bureau of Labor Statistics
450 Golden Gate Avenue
Box 36017
San Francisco, Calif. 94102



BUREAU OF LABOR STATISTICS

BLS 4-86

450 Golden Gate Avenue
Room 10450 - Box 36017
San Francisco, CA 94102

EMBARGOED FOR RELEASE
5:30 A.M. (PDT)
Tuesday, July 24, 1984

SAN FRANCISCO-OAKLAND METROPOLITAN AREA CONSUMER PRICE INDEXES June 1984

The San Francisco-Oakland Metropolitan Area Consumer Price Index for All Urban Consumers increased 0.7 percent from April 1984 to June 1984, according to Regional Commissioner Sam M. Hirabayashi of the U.S. Department of Labor's Bureau of Labor Statistics, Pacific Regional Office. The June 1984 index stood at 318.7 (1967=100), 5.2 percent above its year-ago level. The Consumer Price Index for Urban Wage Earners and Clerical Workers for June 1984 was 315.1, 1.3 percent above April 1984, and 5.5 percent above the June 1983 level.

Consumer Price Index for All Urban Consumers (CPI-U)

The food and beverages index rose 0.2 percent from April 1984 to June 1984 and 4.6 percent from June 1983 to June 1984.

Housing costs rose 1.0 percent over the two-month period and 6.6 percent above the year-ago level.

Apparel and upkeep prices decreased 3.6 percent from April but rose 2.8 percent above their year-ago level.

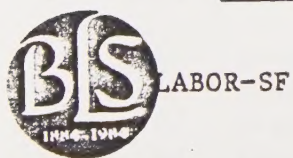
Transportation costs advanced 1.7 percent from April to June and rose 4.5 percent from June 1983.

Medical care expenses rose 0.2 percent from April and increased 3.4 percent from the year-ago level.

Entertainment costs increased 1.1 percent over the two-month period and rose 3.5 percent above the year-ago level.

The attached table provides additional information on price changes in the San Francisco-Oakland Metropolitan Area.

Note: Effective with the CPI for January 1987, there will be changes to the frequency of publication for some local area data. See page 3 for details.



San Francisco-Oakland Metropolitan Area

Consumer Price Index (1967=100, unless otherwise noted)

| | All Urban Consumers | | | Urban Wage Earners and Clerical Workers | | |
|-------------------------------|---------------------|----------------------------------|--------------|--|----------------------------------|--------------|
| | Index | Percent change June 1984 from | | Index | Percent change June 1984 from | |
| | | June 1983 | Apr. 1984 | | June 1983 | Apr. 1984 |
| All items | 318.7 | 5.2 | 0.7 | 315.1 | 5.5 | 1.3 |
| All items (1957-59=100) | 379.3 | - | - | 375.0 | - | - |
| Food and beverages..... | 295.1 | 4.6 | .2 | 297.2 | 4.6 | .0 |
| Food..... | 306.0 | 4.9 | .1 | 307.1 | 4.8 | .0 |
| Food at home..... | 297.6 | 4.1 | .0 | 295.5 | 3.9 | -.2 |
| Food away from home..... | 317.5 | 6.4 | .3 | 325.6 | 6.3 | .3 |
| Alcoholic beverages..... | 196.8 | .9 | 1.1 | 199.9 | 1.5 | .8 |
| Housing | 355.7 | 6.6 | 1.0 | 343.7 | 6.8 | 2.2 |
| Shelter..... | 385.3 | 7.5 | .8 | 364.6 | 7.5 | 2.4 |
| Renters' costs 1/..... | 114.3 | 8.2 | .9 | | | |
| Rent, residential..... | 306.0 | 8.8 | .9 | 306.0 | 8.8 | .9 |
| Homeowners' costs 1/..... | 113.4 | 7.2 | .7 | | | |
| Homeownership..... | | | | 394.4 | 7.3 | 2.9 |
| Fuel and other utilities.. | 401.0 | 11.6 | 5.7 | 400.9 | 11.6 | 5.6 |
| Furnishings and operation. | 254.7 | .5 | -1.5 | 255.9 | -.2 | -1.7 |
| Apparel and upkeep..... | 207.6 | 2.8 | -3.6 | 198.8 | 2.5 | -3.5 |
| Transportation..... | 319.3 | 4.5 | 1.7 | 327.7 | 4.6 | 1.5 |
| Private transportation.... | 318.8 | 4.6 | 1.4 | 329.0 | 4.8 | 1.4 |
| Public transportation..... | 310.4 | 3.6 | 5.3 | 299.5 | 2.7 | 3.9 |
| Medical care..... | 361.7 | 3.4 | .2 | 360.1 | 3.9 | .3 |
| Medical care services..... | 393.2 | 3.3 | .0 | 390.6 | 3.9 | .1 |
| Entertainment | 245.7 | 3.5 | 1.1 | 218.3 | 4.3 | 1.3 |
| Other goods and services ... | 314.3 | 6.2 | 1.6 | 315.1 | 6.1 | 1.4 |
| Commodities..... | 280.8 | 3.1 | -.1 | 284.6 | 4.5 | .8 |
| Services..... | 375.9 | 7.2 | 1.5 | 364.9 | 6.9 | 2.0 |
| Energy 2/ 4/..... | 211.4 | 2.6 | 4.7 | 210.7 | 2.2 | 4.4 |
| All items less shelter..... | 297.1 | 4.4 | .7 | 298.7 | 4.6 | .7 |
| All items less medical care. | 315.9 | 5.3 | .8 | 312.3 | 5.6 | 1.4 |
| All items less energy 3/..... | 166.8 | 5.5 | .3 | 164.1 | 5.9 | 1.0 |

1/ December 1982=100

2/ June 1978=100.

3/ December 1977=100.

4/ Excludes motor oil, coolant and other products as of January 1983.

U.C. BERKELEY LIBRARIES



0124879651